LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6773 | **NOTE PREPARED:** Jan 31, 2005
BILL NUMBER: HB 1584 | **BILL AMENDED:**

SUBJECT: Steel mill personal property assessment.

FIRST AUTHOR: Rep. Becker | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill provides that special integrated steel mill equipment property tax valuation applies only if the mill produces steel in a blast furnace in Indiana.

Effective Date: January 1, 2004 (retroactive).

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

Tax shifts to business personal property from other property cause the state's expense for PTRC and Homestead Credits to decline. The reduction in state expense for these credits under this bill is estimated at \$400 in FY 2005 (partial year), \$3,000 in FY 2006, and \$9,000 in FY 2007.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. The increase in the assessed value (AV) base under this bill would similarly change the property tax revenue for these two funds. The increase would be minimal.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law and Department of Local Government Finance rules, business personal property, except for integrated steel mill and oil refinery equipment is valued according to a depreciation schedule as specified in the rule. Taxpayers list the cost of depreciable property in one of four "pools , depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of equipment is multiplied by the appropriate "percent good factor in the depreciation schedule to produce the true tax value (TTV) of the equipment. The TTV of all of a taxpayer's depreciable property located in the same tax taxing district must be at least 30% of the total cost of the property. The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of the equipment.

Integrated steel mill and oil refinery/petrochemical equipment may be valued under a fifth pool depreciation schedule. The value of property in this pool is not subject to the 30% floor. Taxpayers who choose to use pool 5 depreciation may not make any adjustments for abnormal obsolescence. A taxpayer may use Pool 5 to value all of their property if at least 50% of the taxpayer's total property cost is attributable to special integrated steel mill or oil refinery/petrochemical equipment.

Under current law, an integrated steel mill is defined as a producer of steel by processing raw materials in a blast furnace. Beginning with taxes paid in CY 2005, this bill would require that the blast furnace be located in Indiana to meet the definition and in order for a taxpayer to use Pool 5 depreciation.

There is currently at least one taxpayer, in Spencer County, that has its blast furnace in another state but used Pool 5 depreciation for its Indiana property. This taxpayer is located in a tax increment financing (TIF) district and currently receives an abatement on its personal property . The TIF was structured so that (1) 10% of the taxpayer's AV is not tiffed, and (2) the taxpayer is responsible for making payments to the redevelopment commission if the TIF proceeds in a year are insufficient to meet annual debt repayment obligations.

According to the county, through its consultant, the taxpayer's total net assessed value would increase by $9.7 M for taxes paid in CY2005, $58.7 M in CY 2006, and $117.8 in CY 2007 if the use of Pool 5 is disallowed.

10% of the increased AV would be added to the tax base of all of the units that service the taxing district where the property is located. The rest would be tiffed. The addition of AV to the tax base would reduce the tax rate by about $0.0035 in CY 2005, $0.0200 in CY 2006, and $0.0390 in CY 2007. The resulting gross tax shift from all taxpayers to the steel taxpayer is estimated at $17,000 in CY 2005, $100,000 in CY 2006, and $200,000 in CY 2007.

The new tax rate would be applied to the revised tiffed AV to produce the TIF proceeds. Gross TIF proceeds would increase by an estimated $175,000 in CY 2005, $1.0 M in CY 2006, and $2.1 M in CY 2007. The taxpayer's debt guarantee payments would be reduced by this amount. The taxpayer made guarantee payments equal to $2.2 M in CY 2003 and $1.2 M in CY 2004. So far, in CY 2005, the taxpayer has made $250,668 in guarantee payments. This amount is more than the 1st of two 2004 payments. The 1st 2004 payment was $221,781.

Total local property tax revenues, except for cumulative funds, would not be affected by this proposal. Cumulative fund revenue would rise by an estimated $2,500 in CY 2005, $15,000 in CY 2006, and $30,000 in CY 2007.

The following table contains the percent good factors used in pools 1 through 4 and for Pool 5.

Personal Property Depreciation Schedule					
	Pool 1	Pool 2	Pool 3	Pool 4	Pool 5
Age of Property	**1-4 Year Life**	**5-8 Year Life**	**9-12 Year Life**	**13+ Year Life**	**All**
Year 1	65%	40%	40%	40%	40%
Year 2	50%	56%	60%	60%	56%
Year 3	35%	42%	55%	63%	42%
Year 4	20%	32%	45%	54%	32%
Year 5	20%	24%	37%	46%	24%
Year 6	20%	18%	30%	40%	18%
Year 7	20%	15%	25%	34%	15%
Year 8	20%	15%	20%	29%	10%
Year 9	20%	15%	16%	25%	10%
Year 10	20%	15%	12%	21%	10%
Year 11	20%	15%	10%	15%	10%
Year 12	20%	15%	10%	10%	10%
Year 13+	20%	15%	10%	5%	10%
	Total value of Pools 1-4 must be at least 30% of total cost (30% Floor)				No 30% Floor

State Agencies Affected: Department of Local Government Finance; State Fair Board; Department of Natural Resources.

Local Agencies Affected: Spencer County Assessor; Spencer County Auditor; Redevelopment Commission.

Information Sources: Property tax return data; Local Government Database; H.J. Umbaugh for Spencer County.

Fiscal Analyst: Bob Sigalow, 317-232-9859.